

IMPLEMENTATION OF HB 64

Prepared for the
Legislative Finance Committee
by

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INTRODUCTION

17-7-111(3)(g), MCA, enacted in HB 64 of the 1999 legislative session, directs the agencies of state government (with more than 20 FTE) to provide as a part of their budget submission to the budget director, “a plan to reduce the proposed budget to 85% of the current base budget.” It provides further that the plan must include:

- a prioritized list of services that would be eliminated or reduced;
- for each service included in the prioritized list, the savings that would result from the elimination or reduction; and
- the consequences or impacts of the proposed elimination or reduction of each service.

This exercise is intended to be the development of “what if” scenarios to assist the Legislature and the Governor in assessing priorities relative to the agency budget requests. The scenarios are to be prepared in response to the following: If an agency’s appropriation is to be less than the current level, or if there are new services that should be implemented within limited resources, what services would not be provided?

Although the text of the bill states “a plan to reduce the *proposed* budget to 85% of the current base budget [emphasis added],” the title of House Bill 64 clarifies that this would be a “plan to reduce base budgets.” Therefore, for each subject agency, the target amount for the reduction plan would be 15 percent of their proposed *base* budget.

The new language does not specify fund types to be targeted. While it would be obvious to an agency with only one funding source, most agencies have various sources. Should agencies be directed to identify reductions from any specific fund type(s), i.e. general fund, special revenue, federal? The assumption, based upon the absence of specific language in the statute, is that an agency should develop the list of services for all funding sources. Since a given program/service is not usually funded in the same proportion as the whole agency, some latitude should be allowed relative to non-general fund sources. Regardless, any plan must include a general fund reduction equal to at least 15 percent of the agency’s total general fund appropriation in the base budget.

BACKGROUND

There is a long history of requests for this type of information. It is not uncommon for one or more legislators to ask staff to obtain lists of programs or services that might be cut from the overall budget in order to reduce appropriations that are above the available revenue threshold or to free-up funds for another proposed program or service. 17-7-111(3)(g), MCA, makes this request part of the executive budget process.

The benefit of making this part of the executive budget process is that it asks agency management to prioritize “base” services, not just new proposals. In other words, by identifying the lowest priority services funded from the base, it allows some added

flexibility to the budget deliberation process. More importantly, it encourages a review of the activities of the agency relative to the needs of the state and its citizens, and its own mission and purpose. Another value of having the reduction plan as part of executive budget process is that the agency has more time to consider the impacts and the various alternatives or options that might mitigate the impacts. It can be a true planning effort, rather than a quickly thrown-together proposal to satisfy a surprise, but usually inevitable, request.

The response to such requests is difficult for agencies. The elimination of specific services impacts both the program beneficiaries (constituents) and the agency staff that provide the services. Just as the legislature must weigh the costs and benefits relative to other programs or services, the agency management must do the same. The message the decision sends to constituents by suggesting that a given program is expendable is discouraging to the constituents as they likely have strong feelings about the importance of the services. The message that it sends to the staff, regardless of whether or not the program is ultimately cut, is that the work they do is not very important, potentially impacting morale and productivity. The consequences of reducing or eliminating services are potential hardships for constituents and potential unemployment for staff. All parties need to be aware of these impacts and how they affect the decision making process.

Agencies usually argue that the services being considered for reduction or elimination are required by statute. Oftentimes, this is true. However, sometimes the services are not specifically required, but rather are either implied or assumed to be necessary under the law. The agency plan needs to explain the specific authority for providing the services. In concert with this aspect, the agency plan should identify what statutory or rule change is necessary if the reduction plan is implemented.

CONCEPTUAL DESIGN

The process for identifying and considering the reduction of services would require the following information to be submitted by the agency (most is specified by 17-7-111(3)(g), MCA):

Form A - a prioritized list of the services that would be eliminated or reduced

Form B – one completed for each service listed on Form A, and providing:

- a description of the service, including why it can be considered for elimination or reduction;
- the savings that are expected (FTE, personal service costs, operating costs, etc., at the 2nd level);
- the consequences or impacts of the proposed elimination or reduction;
- how the impacts to constituents and staff might be mitigated; and
- whether the service is specifically required by statute – yes or no (if yes, providing the statutory cite, and if no, providing the authority under which the services are provided).

As specified in 17-7-111, MCA, the above information would be submitted as part of the Governor's Executive Budget to the Office of Budget and Program Planning (OBPP). (The OBPP timetable indicates October 16th for current budget analysis cycle.) It is expected that OBPP would, at a minimum, review the document for consistency with executive priorities. If it were not approved, OBPP would go back to agency for a reduction plan that is acceptable to the executive. If approved by OBPP, the reduction plan package would be forwarded to the Legislative Fiscal Analyst (LFA) by the statutory deadline of November 15th for transmitting the executive budget. *[Comment: OBPP has indicated that the information may be included in the Governor's Executive Budget publication.]*

The LFA will review the submitted plan for completeness and accuracy. The plan will not be included in the Legislative Budget Analysis publication. The information will be maintained and presented separately and used as a tool by the legislative analysts in their support of the deliberations of the legislative committees. The intent is that this information will be used primarily when considering revenue shortfalls or methods of funding new proposed services. The expectation is that agencies can be comfortable in identifying services in this plan, and that the services will not be automatically "cut." The services identified remain in the base until some action is taken by the legislature to the contrary. If such an action were taken, the services cut would remain on the table with new proposals that are being considered over and above the base. In this event, the analyst will need to be prepared to discuss the budget and policy implications of the elimination or reduction of the services identified.

SYSTEMS

There is nothing that would require this data to be collected in the Montana Budgeting and Reporting System (MBARS). It can be collected via instructions and forms promulgated by OBPP and agreed to by the LFA. Once received and approved by OBPP, the information can be transmitted to LFA in the same form as received by OBPP. After we have gone through this process once, we might consider how it could be included in MBARS.

INSTRUCTIONS

The instructions to the agencies should provide:

- a description of the legislation;
- an explanation of what is required in the plan to reduce base budget by 15 percent;
- a clear explanation of how the information will be used; and
- appropriate forms and how to complete them.

CONCLUSION

In basic terms, 17-7-111(3)(g), MCA, requires the individual agencies to prioritize the services they provide (as reflected in the base budget). However, the prioritization occurs only to the extent that the agencies can identify the lowest priority services and the cost of those services. This is not being done to establish a “cut list” that will be automatically applied across the board. Just as the Governor or the Legislature would not necessarily accept every requested new proposal, they would not accept every reduction plan item identified. It is done to provide some additional flexibility to the budget deliberation process, especially during times of revenue shortfalls or when there is need for new services for which a funding source is not apparent. It is an exercise that benefits all of the involved parties by adding additional information to the process.

OPTIONS TO CONSIDER

The LFA is seeking further direction from the committee on the following items:

Would the committee prefer to have this exercise focus only on general fund expenditures? This would simplify the preparation and consideration of the 15 percent reduction plan reducing the burden on the agencies, OBPP, the LFA, and the legislature. It can be argued that a review of other fund sources (i.e., state special revenue, federal or internal service and enterprise funds) is redundant in that other processes exist that help determine spending priorities. The statute does not focus on the any fund source. It refers only to reducing the base budget.

Is the committee comfortable with the “reduction plan” not being included in the Legislative Budget Analysis publication? The conceptual design of this process as described above provides that the information not be published in the Legislative Budget Analysis book. This is suggested to avoid the “reduction plan” becoming the focus of (or a distraction from) the budget deliberation process rather than simply being an option among competing priorities.

Does the committee agree with the description of how this information will be used? The above conclusion section describes how the “reduction plan” information would be used. The LFA staff believes it is important for agencies to have a clear explanation of how this information will be considered, so that they can relay the same to affected constituents and staff. The more knowledge agencies have regarding the process, the better the information the legislature will receive regarding the reduction options.

Related to the previous question, does the committee wish to send a letter and/or instructions to the agencies describing how this new statutory requirement will be implemented and what the expectation will be? If the agencies are better informed regarding the implementation and expectations of this new requirement, they may be better able to complete their “reduction plans.” OBPP sent its Executive Planning Process instructions this month. These instructions alert the agencies to the requirement. OBPP

will be sending instructions and forms to the agencies in September. A letter from the Legislative Finance Committee might further encourage the agencies to begin the planning process so that the benefits of such planning can be realized in the form of a well thought-out plan.

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